INDAKA MUNICIPALITY

MEDIUM TERM BUDGET

2013/2014 TO 2015/2016

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B. GLOSSARY OF TERMS AND ABBREVIATIONS

Adjustments Budgets – Prescribed in section 28 of the Municipal Finance Management Act, this is the formal means by which a municipality may revise its budget during a financial year.

Allocations – Money received from Provincial and National Treasury.

Budget – The financial plan of a municipality.

Budget related policy – Policy of a municipality affecting, or affected by, the budget. Examples include tariff policy, rates policy and credit control and debt policy.

Budget Steering committee – Committee established to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the MFMA.

Capital Expenditure – Spending on municipal assets such as land, buildings and vehicles. Any capital expenditure must be reflected as an asset on a municipality's balance sheet.

Cash Flow Statement – A statement showing when actual cash will be received and spent by the municipality, and the month end balances of cash and short-term investments.

CPI – Headline Consumer Price Index

DMTN – Domestic Medium Term Note

DORA – Division of Revenue Act. Annual legislation which shows the allocations from national to local government.

DORb – Division of Revenue Bill. Annual legislation tabled in parliament, but not enacted, which shows the allocations from national to local government.

Executive Management Team – A team comprising the Municipal Manager and the Directors. It reports to the Municipal Manager.

Equitable Share – A general grant paid to municipalities. It is predominantly targeted at assisting municipalities with the costs of free basic services.

GDFI - Gross Domestic Fixed Investment

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates comparisons between municipalities.

IDP – Integrated Development Plan. The main strategic planning document of a

municipality. **KPI** – Key Performance Indicators. Measures of service output and/or

outcome.

MFMA - Municipal Finance Management Act (No 53 of 2003). The principal piece of legislation relating to municipal financial management.

MTREF – Medium Term Revenue and Expenditure Framework, as prescribed by the MFMA. It sets out indicative revenue and projected expenditure for the budget year, plus two outer financial years.

MYPD – Multi Year Price

Determination **NT** – National

Treasury

Operating Expenditure – The day-to-day expenses of a municipality such as general expenses, salaries & wages and repairs & maintenance.

Portfolio Committee – In line with Section 79 of the Structures Act, the Municipality's Portfolio Committees process policies and bylaws relating to the functional areas within their terms of reference, and are responsible for implementation monitoring of these, as well as oversight of the functional areas. Portfolio Committees are also responsible for assessing and monitoring services delivery, ensuring that annual budgets are spent wisely, and that there is no wastage or corruption.

Rates – Local Government tax based on assessed valuation of a

property. **TMA** – Total Municipal Account

SCM - Supply Chain Management

SDBIP – Service Delivery Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

SFA – Strategic Focus Areas. The main priorities of a municipality as set out in the IDP. Budgeted spending must contribute towards achievement of these Strategic Focus Areas.

Vote – One of the main segments into which a budget is divided, usually at directorate level.

Part 1 – Draft Annual Budget

1.1 Mayor's Report

In the Budget Speech to Parliament the Minister of Finance said and I quote 'Mister President, you have given us a clear and historic challenge to "write a new story about South Africa – the story of how, working together, we drove back unemployment and reduced economic inequality and poverty". It is about building modern infrastructure, a vibrant economy, a decent quality of life for all, reduced poverty, decent employment opportunities, by all of us, South Africans from all corners of this country."

Minister Gordhan then went further to say we must not turn away from our challenges. Instead we must confront them and harness all resources at our disposal and learn to do more with less, we have to work smarter and harder.

The Minister further emphasized that State enterprises, municipalities and government departments all need to improve their planning and management of capital projects. In addition to long delays, cost over-runs are often experienced in infrastructure projects. <u>We therefore have to step up the quality of planning, costing and project management so that infrastructure is delivered on time and within the allocated budget. This further means that municipalities and government departments that do not spend, under-spend or mis-spend their allocated funding, will be at risk of losing their allocations and the relevant officials will also be held accountable. National Treasury will be monitoring the spending of grants to ensure value for money and adherence to the Expanded Public Works Program targets.</u>

The Municipal Infrastructure Support Agency will be established this year and will focus on rural municipalities that lack planning capacity.

During the State of the National Address the President asked that we use our strengths by getting more people working, exploiting our mineral wealth and making use of local innovation and business know-how. To make these proposals effective the quality of leadership and co-operation between businesses, labour and government are critical.

The President further stated that the private sector must play a complementary role in improving the implementation and efficiency of infrastructure projects.

Management within local government has a significant role to play in strengthening the link between the community and governments overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within the Indaka Local Municipality.

Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities.

The challenge is to do more with the limited resources available. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that sustainable municipal services are provided economically and equitable to all communities. We must ensure value for money with the greatest possible care to ensure rate payers money is well used and not wasted.

One of the priorities is to invest into our infrastructure which is ageing and needs to be updated and maintained. To achieve this we have to improve and encourage investment into the area. We also have to support job creation with focus on unemployed youth who are the future of Indaka, to this extent R1 million has been allocated by National Treasury to the Expanded Works Program. The municipality will further try and reduce unemployment and poverty with policy reforms and partnerships with local businesses and labour to reduce the cost of doing business, raise productivity, tap new markets for investment and take advantage of opportunities presented by enhanced regional integration.

One of the focus points of the budget this year is to improve the efficiency of the municipality by redirecting spending to priority areas. Department's budgets have been cut in selected areas and funds shifted towards the key priorities.

1.2 COUNCIL RESOLUTIONS

The 2013/2014 MTREF Budget Resolutions recommend that:

1. The Council of Indaka Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

   The draft annual budget for the financial year 2013/2014; and the multi-year and single-year capital appropriations as set out in the following tables:

   a) *Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A2*
   b) *Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3*
   c) *Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table A4*
   d) *Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table A5*

2. The financial position, cash flow budget, cash-backed reserve/accumulates surplus, asset management and basic service delivery targets are approved as set out in the following tables:

   a) *Budgeted Financial Position as contained in Table A6*

   b) *Budgeted Cash Flows as contained in Table A7*

   c) *Cash backed reserves and accumulated surplus reconciliation as contained in Table A8*
   d) *Asset management as contained in Table A9; and*

   e) *Basic service delivery measurement as contained in Table A10.*

3. The Council of Indaka Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2013 the tariffs for other services, as set out in Annexure 6

4. To give proper effect to the municipality's draft annual budget, the Council of Indaka Local Municipality approves:

a) *That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.*

b) *Assessment (property) rates.*

c) *Draft Budget Policy*

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d) *Asset management policy.*

e) *Draft Credit Control and Debt Collection Policy .*

f) Integrated Development Plan.

g) Banking and investment policy.

i) SCM Policy

2. Service Delivery Plans / Business Plans with measurable targets to be approved by the Executive Mayor within 28 days after the approval of the budget.

3. The National Treasury Circular 67 ("Municipal Budget Circular for the 2013/2014 MTREF") is annexed to this report for noting.

4. Further ward allocation projects to be identified and approved towards the end of April and to be included in the budget to be submitted to Council for approval.

2. BUDGET SYNOPSIS & EXECUTIVE SUMMARY

a. General

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainable, economically and equitably to all communities.

The Municipality's service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate funds were transferred from low- to high priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditure on non-essential and 'nice-to-have' items. 2013/14 MTREF was drafted in context of a reviving economy, whilst still acknowledging the lingering effects of the economic downturn of the past couple of years.

The budget for the 2013/14 MTREF period was based on the realization that no, or limited, scope for additional externally- or internally-funded revenue growth existed and was further reiterated in National Treasury guidelines (circular 51,58,59,66 & 67) - "...*over the next few years, government must deliver more services – and deliver them more efficiently – within a tight resource envelope. Achieving this objective requires a new way of working: the budget has been reprioritised so that money is moved from low-priority programmes to high-priority programmes. Municipalities are encouraged to adopt similar stances on these issues. This is particularly important in the run-up to the local government elections. Mayors and Councils need to remain focused on the effective delivery of core municipal services...."*

The budget was compiled by ensuring that the financial management processes are transparent, aligned to the accountability cycle and facilitate good governance that is accountable to the local community.

The budget supports the provision of basic services to the communities, facilitating social and economic development, promoting a safe and healthy environment in a sustainable manner.

The main challenges experienced during the compilation of the 2013/14 MTREF can be summarized as follows:

- The ongoing difficulties in the local economy
- Ageing roads and infrastructure
- The need to prioritize projects and expenditure within the existing resources available.
- Affordability of capital projects.

The following budget principles and guidelines directly informed the compilation of the 2013/14 MTREF:

- The 2012/13 Adjustment Budget priorities and targets, as well as the base line allocations contained in the Adjustment Budget.
- Service level standards were used to inform the measurable objectives, targets and backlog eradication goals.
- Tariff and property rate increases should be affordable and try not to exceed inflation as measured by the CPI.
- No budget has been allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the Division of Revenue Act gazette.

b . Operating Budget

Expenditure

Total operating expenditure increased from R 52.540 million in 2012/13 to R58.195 million in 2013/14. The overall growth of 10.763% can be attributed to increases on several expenditure components.

Examples of these are:

	2012/13 Budget	2013/2014 Budget R	Year on year
Employee related costs	9,680,237	10,343,332	6.85%
Remuneration of Councilors	6,232,458	6,659,382	6.85%
Depreciation	5,000,000	6,500,000	30.00%
General Expenditure	28,561,777	31,180,957	9.17%
Repairs and Maintenance	2,066,350	2,511,350	21.54%
Other expenditure	1,000,000	1,000,000	0.0%
Total Expenditure	**52,540,822**	**58,195,021**	**10.76%**

Reasons for significant variances:

Depreciation & Asset Impairment – The increase results from the adjusted (reduced) life span of certain asset classes and the depreciation impact of major projects as well as the revaluation of certain asset classes;

General Expenditure - The decrease results from free basic services which now form part of other expenditure.

Repairs and maintenance – The increase results from the provision repairs and maintenance.

Other expenditure – This expenditure component now includes free basic services.

The 2013/2014 Operating Budget provides for the following additional allocations:

Revenue

Total operating revenue increased from R 90,816 million in 2012/13 to R 108,336 million in 2013/14 (19,29% growth).

Major contributing items are:

- An increased allocation in respect of the National Equitable Share allocation (from R 59.60 million (2012/13) to R63,19 million (2013/14))

Revenue sources:

	2012/13 Budget R	2013/2014 Budget R	Year on year
Property Rates tax	1,776,644	1,390,316	-21.7%
Rentals	75,656	75,766	.14%
Services charges – Refuse	178,808	188,644	5.50%
Interest earned – investments	1,200,000	1,000,000	-16.66%
Grants & Subsidies	62,170,000	69,123,000	11.18%
Grants & Subsidies – capital	25,343,000	36,490,000	43.98%
Other Revenue	71,500	68,692	-3.92
Total Revenue	**90,815,610**	**108,336,418**	**19.29%**

Reasons for significant Revenue variances:

- Interest on Investments decreased-due to capital expenditure.
- Grants- Dora allocations increased.
- Property rates- decreased due to increase on rebates & impermissible.

Individual service tariffs / Rates

The proposed tariff increases in the table below are averages; i.e. some clients may pay more and others less than the average.
Average Tariff increases for 2013/14, 2014/15 and 2015/16:

	2013/14 %	2014/15 %	2015/16 %
Rates	5.5	5.1	4.9
Refuse Removal	5.5	5.1	4.9

Rates
The tariff increase is 5.5%

Solid Waste
An average tariff increase of 5.5%.

c. Capital Budget

The Capital Budget increases from R 33,690 million in 2012/13 to R47,240 million in 2013/14. This overall growth of 40,21% can be attributed to various factors:

- Increased allocations made by National and Provincial spheres of Government for the Roads & Electricity votes

	2012/13 Budget R	2013/14 Budget R	Increase/Decrease R
Capital Grants	22,590,912	36,490,000	13,899,088
Total	**22,590,912**	**36,490,000**	**13,89,088**

Major capital expenditure is planned in the following areas during the 2013/14 financial year:

- Roads – R 26,490,000
- Electricity – R 10,000,000
- Vehicles – R 400,000
- Fencing Cemetry & Landfill Site-- R 1,000,000
- Renewal Existing Capital Assets-- R 2,000,000
- Sports Combo R 7,000,000
- Other – R 350,000

The most significant projects are in:

Technical Directorate:

- Roads Services:
  Rural Roads & Bridges
- Electricity Services:
  Electrification
  Sports Combo
- Renewal Existing Assets
- Other-
  Vehicles
  Office Equipment

New projects (extract) in the 2013/14 Capital Budget:

Project Description	2013/2014 Budget R
Vehicles	400,000
Roads	26,490,000
Electrification	10,000,000
Fencing	1,000,000
Equipment	350,000
Renewal of existing assets	2,000,000
Sports Combo	7,000,000

3. ANNUAL BUDGET TABLES

Budget schedules to be approved by resolution of Council

Table A1 - Budget Summary
Table A2 - Budgeted Financial Performance (Revenue and Expenditure by classification
Table A3 - Budgeted Financial Performance (Revenue and expenditure by municipal vote)
Table A4 - Budgeted Financial Performance (Revenue and Expenditure)
Table A5 - Budgeted Capital Expenditure by vote, standard classification and Funding
Table A6 - Budgeted Financial Position
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Table A8 - Cash backed reserves/accumulated surplus reconciliation
Table A9 - Asset Management
Table A10 - Basic service delivery measurement

4. OVERVIEW OF ANNUAL BUDGET PROCESS

a. Budget Process Overview

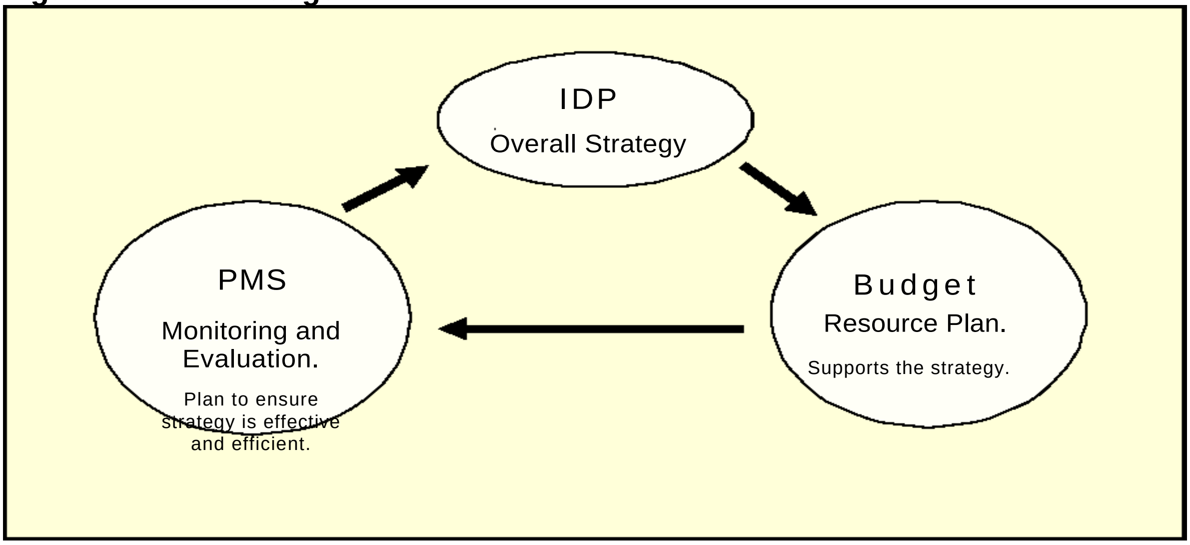
In terms of Section 24 of the MFMA, Council must, at least 30 days before the start of the financial year, consider the annual budget for approval. Section 53 requires the Mayor of a municipality to provide general political guidance over the budget process and the priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations, gazetted on 17 April 2009, states that the Mayor of a municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

In line with the above requirements, the budget process for the 2013/2014 MTREF period proceeded/will proceed according to the following timeline:

26 March 2013 Draft Budget

Submit Draft budget, tariffs, SDBIP’s to Exco for recommendation to Council Submit

Figure 1: IDP and Budget link



Draft IDP to Exco for recommendation to Council

b. Integration of the review of the IDP and the preparation of the Budget

The IDP is the principal strategic planning instrument that guides and informs its planning, management and development actions. This visionary framework is rolled out into objectives, key performance indicators (KPIs) and targets for implementation.

These are then broken down into Service Delivery and Budget Implementation Plans (SDBIPs) that reflect the detailed projects. Each of these projects is allocated budgetary and other resources.

The IDP also informs the municipality's performance management system, as the KPIs are monitored and must be reported on every quarter.
The figure below visually represents the link between the IDP and the Budget anddemonstrates how corporate strategy is cascaded towards through the organisation, and how it influences and shapes the operating and capital budgets of the various directorates and departments within the municipality.

c. Consultation with the community and key stakeholders

The IDP public engagement was held from January 2013 to March 2013.

The tabled budget will be provided to the National and Provincial Treasury for their assessment in accordance with S23 of the MFMA in April 2013.

d. Schedule of Key Deadlines relating to budget process [MFMA s 21(1)(b)]

There was no IDP and Budget plan due to management challenges which are dealt with elsewhere.

DATE	ACTIVITY	RESPONSIBILITY
26 March 2013	**Draft Budget** Submit Draft multi-term operational and capital budget, SDBIP to Council, National and Provincial Treasury, DCGTA Advertise draft budget and tariffs for comment Submit Draft IDP to Council, National and Provincial Treasury & COGTA	**MFAS** **IDP Manager**
8 April – 19 April 2013	**Public Consultation Process** Public Consultation on Draft budget throughout municipality Public Consultation on Draft IDP Advertise both budget and IDP for comment	**MAYOR** **EXCO** **MM** **IDP Manager**
26 April 2013	**Respond to Public Comments** Response to public comments and sector comments. Incorporate recommendations into Draft budget and IDP if possible and feasible	**MAYOR** **MFAS**
30 May 2013	**Approval of Final Draft Budget** Approve the Draft multi-term operational and capital budget Approve the Draft IDP	**COUNCIL**
10 June 2013	**Advertising** Publication of approved budget. Place on web site Publication of approved IDP. Place on web site	**MM** **MFAS**
10 June 2013	**Submission of Budget** Submit approved budget to National and Provincial Treasury and COGTA. Submit approved IDP to National and Provincial Treasury and COGTA	**MFAS** **IDP Manager**
28 June 2013	**Finalise SDBIP** Finalise service delivery and budget implementation plan(SDBIP) and submit to Council for approval	**MAYOR** **MM**

5. OVERVIEW OF THE MUNICIPALITY'S INTEGRATED DEVELOPMENT PLAN

a The Vision of the Municipality

The Municipality's long term vision is:

"To make the people of Indaka enjoy the most improved quality of life and community-driven services by 2020"

MISSION

Indaka Municipality commits to the following:

- **Creating an environment conducive to economic development and growth.**
- **Making Indaka area a safe and vibrant place to live and work in.**
- **Improved service delivery.**
- **Good governance.**

b. The 5-Year IDP and Strategic Focus Areas

On 1 July 2012, the Indaka Municipality implemented a new five-year IDP for the period July 2012 to June 2017 to inform and guide the current elected public representatives in their term of office. This document is the last annual review of the IDP, and outlines the Municipality's intent in terms of the agreed strategic focus areas that are required to overcome Indaka challenges, achieve its vision, and give effect to its other strategic considerations.

- Low economic growth and unemployment
- Poor access to basic household services
- High levels of poverty
- Low levels of literacy and skills development
- The issue of HIV / AIDS and other diseases

- Exposure to unacceptably high level of crime and risk
- Unsustainable development practices
- Ineffective, inefficient, inward looking local government

LOCAL PRIORITIES

- To build a functionally efficient and local government structure
- To maintain financial stability and sustainability
- To create an integrated and efficient spatial structure
- To promote equitable access to infrastructure and basic services
- To improve the standard of living for the entire community of Indaka municipality
- To facilitate economic development and growth

The draft Integrated Development Plan is attached.

c Measurable performance objectives and indicators

The Municipality's measurable performance objectives, as reflected in Support Table SA7 of Schedule A the Municipal Budget and Reporting Regulations, are attached.

6. MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

Key financial indicators and ratios

Table A8: Performance Indicators

7. OVERVIEW OF BUDGET-RELATED POLICIES

Revenue Framework

Section 18 of the MFMA states that the budget can only be funded by realistically anticipated revenue to be collected, as well as cash backed accumulated funds from previous years and not committed for other purposes.

In addition, NT Circular 59 stipulates that the budget is to be managed in a full accrual manner, reflecting a transparent budget and accounting system approach.

The MFMA requires the municipality to adopt and implement a tariff policy. Council has approved such policies for all major tariff-funded services provided by the municipality, which are attached as annexures to this document.

Council is required to adopt budgetary provisions based on realistic anticipated revenue for the budget year from each revenue source, as per the requirements of the MFMA (Chapter 4, S17 (1) (a) & (3) (b)).

1. Revenue related policies

2. General Tariff Policy

The Municipal System Act requires Council to adopt a Tariff Policy. The general financial management functions covered in section 62 of the MFMA include the implementation of a tariff policy. Specific legislation applicable to each service has been taken into consideration when determining this policy. The General Tariff Policy is attached.

Credit Control and Debt Collection Policy

This Policy has been formulated in terms of section 96 (b) and 98 of the Local Government: Municipal Systems Act, 2000 and the Credit Control and Debt Collection By-Law. The Policy also includes the Indigent Policy .

3. Budget related policies

Approved policies

The following budget related policies have been approved by Council and is available on the Municipality's website.

- Supply Chain Management Policy
- Cash Management and Investment Policy
- Asset Management Policy

Reviewed/Amended policies

The following budget related policies are currently being reviewed/amended in line with National Guidelines and legislation.

Property Rates Policy

Minor amendments to the approved policy are to be considered in April 2012.

8 OVERVIEW OF BUDGET ASSUMPTIONS

Environment in which the 2013/14 Budget was prepared

The MTREF/budget is susceptible to the economic climate and it is therefore vital that the projected economic condition is properly considered during the budget preparation process.

The 2013/2014 MTREF was drafted in context of a reviving economy. Negative impacts of the multi-year recession are however still experienced and reported by both the private and public sectors.

Key economic trends – 2004 to 2015 (Sourced from BER)

In the midst of the recession, GDP was at a deficit of 1.8%; the inflation rate at 11.85%; the R/$ exchange rate averaged at R 9.40 and interest rate levels averaged at around 4.8%.

The preparation of the 2013/2014 MTREF first draft produced much improved projections; for example - GDP at 5.5%.

Budgetary constraints and economic challenges meant that the Municipality had to apply a combination of cost-saving interventions and higher than headline CPI revenue increases to ensure an affordable, credible and sustainable budget over the 2013/2014 MTREF.

The draft budget for the 2013/2014 MTREF period, resulted from the realization that no, or limited, scope for additional externally- or internally-funded revenue growth existed and the challenge that more needed to be done with the existing resource envelope. This was reiterated in National Treasury Budget Circular 59,66 & 67 as well as a National Treasury presentation to municipalities.

The challenges that faced the Municipality in preparing the 2013/2014 MTREF included:

- In attempting to reduce the high Rates revenue parameter, several interventions to multiyear targets of both revenue and expenditure across services were required, while simultaneously retaining the strategic links to and focus on the draft IDP.
- Substantial, once-off revenue which cover semi-permanent expenditure obligations;
- Persistent staff costs increases over the medium term beyond CPI levels (with inflation linked Revenue increases in corresponding periods).
- The interventions applied to eradicate the above challenges included, amongst others:

Financial modeling

The Indaka Municipality MTREF model is annually reviewed to determine the most affordable level at which the municipality will be able to operate optimally. In addition, sustainability forms the basis of the preparation of the Operating and Capital Budgets. It sets out the economic context and assumptions that inform the compilation of the next three years' budget.

The principles applied to the MTREF in determining the affordability envelope were:

- Higher than headline CPI revenue increases, to the extent that they affect and support Council's operational activities of relevant services;
- Assumption of a 100% capital expenditure implementation.
- Higher than nationally projected inflation provisions for repairs and maintenance, to attain nationally benchmarked levels on this expenditure item, and ensure/enhance the preservation of the Municipality's infrastructure.

Key Financial Indicators in the 2013/2014 MTREF Budget

Headline Consumer Price Index (CPI) – Inflation Outlook

Headline CPI applied in the 2013/2014 MTREF is 5.5%, 5.1% and 4.9% respectively for the 3- year period. This differs somewhat from the CPI forecasts for the same period. The levels are within the NT and SARB CPI projections (3% to 6% range).

Budgetary allocations within the current financial year (2013/2014) were largely based on a CPI level of 5.5%. The MTREF outer years is proposed to remain at 5.1% and 4.9% respectively.

EXPENDITURE FRAMEWORK

Salaries, wages and related staff costs

The municipality's salary increases applied to the staff budget were as follows:

	BASE BUDGET 2012/2013 %	2013/2014 %	2014/2015 %	2015/2016 %
Salaries		**6.85**	**6.4**	**4.9**

Parameters applied to Staff Budget

The promulgation of the Salary and Wage Collective Agreement by the South African Local Government Bargaining Council (SALGBC) provided the general salary adjustment guidelines for the period 2011/2012 to 2014/2015.

The 2013/2014 financial year represents the 1st year of the SALGA salary and wage agreement, which provides for an across the board increase based on the average CPI (February 2010 to January 2011) + 2%, for calculating staff costs increases for the 2011/2012 financial year. The projected staff CPI is 4.6%, however a provision of 5% was made for 2012/2013 due to the agreement stating that *"should the average CPI be lower than 5% or higher than 10% for the period.....any party may be entitled to re-open the negotiations",* thereby indicating that a lower than 5% salary CPI might not be accepted

In the absence of an agreement going forward, the 2013/2014 increase formula was used to project for the two outer years.

Salary increases are consistently higher than CPI. The increase in the salary budget was a contributing factor to the cost pressures experienced on the operating budget

General expenses

The general expenses base was increased from R 28.5 million to R 31.1 million due to the increase in ward committee members cost etc.

Repairs and Maintenance

The National Treasury Municipal Budget Circular for the 2013/2014 MTREF stated that "municipalities must "*secure the health of their asset base (especially the municipality's revenue generating assets) by increasing spending on repairs and maintenance*". The Municipality has, over the last three financial years, consistently increased the investment in repairs and maintenance by above CPI.

REVENUE FRAMEWORK

Service growth

The current unstable economic climate has restricted any material service growth.

Revenue growth parameters: Rates and trading services

The following revenue parameter increases were applied to the 2013/14 MTREF which informs the tariff increases reflected in the Total Municipal Account (TMA):

Revenue growth parameters: Rates and trading services

Ensuring an affordable and sustainable budget necessitated a higher than CPI year-on-year revenue growth to be applied to the Rates and Trading services.

The following revenue parameter increases were applied to the 2013/14 MTREF which informs the tariff increases reflected in the Total Municipal Account (TMA):

- *Rates*: With the backdrop of the current economic climate and other cost pressures negatively impacting on the budget, the rates revenue increase was 5.5%.
- *Refuse Removal:* This revenue parameter increase was model at 5.5%, which is

within the ambit of the BER's CPI projection for 2013/2014.

The revenue parameters applied will generate the following revenue parameters:

REVENUE CATEGORY	ADJUSTMENT BUDGET 2012/2013 R'000	ORGANIC GROWTH PARAMETERS	AVERAGE TARIFF INCREASE	2013/2014 BUDGETED REVENUE R'000
Rates	**1,776,644**	**5.5%**	**5.5%**	**1,390,316**
Refuse	**178,808**	**5.5%**	**5.5%**	**188,644**

Collection rate

In accordance with relevant legislation and national directives, the Municipality's projected revenue recovery rates are based on realistic and sustainable trends. In calculating the working capital reserve the following collection ratios were applied as per the table below.

SERVICE	BASE BUDGET 2012/13 %	2013/14 %	2014/15 %	2015/16 %
Rates and Services	**12.00**	**15.0**	**18.0**	**20.0**

Projected collection rates

The total collection rate for 2013/2014 averages 15% and is based on a combination of actual collection rates achieved to date and the estimated outcomes for the current financial period. The projections for the outer years remained stable.

NATIONAL GRANTS

Equitable Share

The Constitution provides that each sphere of government is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it. The equitable division of revenue takes into account the functions assigned to each sphere under the Constitution and the capacity of each government to pay for these functions through own receipts and revenues.

The local government equitable share allocations supplement municipalities' own revenue sources for the provision of basic services to poor households within their areas of jurisdiction. The equitable share per municipality is calculated using the following equation:

Equitable Share equation

Initiatives are currently being pursued to assess the application of the equation for the Indaka Municipality to ensure that the allocation received by Indaka is equitable and fair. The annual Division of Revenue Act (DORA) publishes the equitable share allocations. The following indicative allocations, as published in the 2013/2014 DORA, were provided as follows:

- 2013/2014 – R 63.187 million
- 2014/2015 – R 67.334 million
- 2015/2016 – R 76.123 million (Forecasted based on year on year average growth)

Interest rates

Average interest rates over the 2013/2014 MTREF period
Interest on investments – 4.5%.

Depreciation

Depreciation was calculated on a straight line method based on the lifespan of the asset class and capitalization date. For multi-year projects it was assumed that capitalization will only take place when the project is completed and depreciation will take effect then.

9. OVERVIEW OF BUDGET FUNDING

1. 2013/2014 and 2014/2015 to 2015/2016 projected financial performance

1.1. Operating Budget

The Operating budget increases from R 52.541 million in 2012/2013 to R 58.195 million in 2013/2014.

1.2. Capital Budget

The capital budget increases from R 34,6 million in 2012/2013 to R 47.2 million in 2013/2014. The overall growth of 40.21% can be attributed to various factors, such as:

- The significant additional external funding allocations to Roads & Electricity Projects votes:
- Increase of approximately R 6.147 million for Roads
- Increase in allocation for electrification of % R 5.0 million.

2. Medium Term Outlook: 2013/2014 to 2015/2016

Operating Budget

The table below reflects the increase in the operating budget in the medium term:

	2013/2014 R	2014/2015 R	2015/2016 R
Operating Budget	58,195,021	62,080,280	69,092,311

Capital Budget

The table below reflects the capital budget and its funding sources in the medium term:

	2013/2014 R	2014/2015 R	2015/2016 R
Capital Budget	47,240,000	26,907,686	22,450,000
Funding Source:			
MIG	26,490,000	26,993,000	28,782,000
DME	10,000,000	15,000,000	10,000,000
Own Revenue	10,750,000	10,700,000	12,450,000

The funding sources listed below are appropriated towards the following major projects on the capital budget:

National Grant Funded

- Rural Roads and Bridges
- Electrification of Houses

Own Revenue

- Own Revenue

3. Sources of Funding

Rates, tariffs and other charges

Property Tax Rates

The proposed property rates are to be levied in accordance with existing Council policies, the Local Government Municipal Property Rates Act 2004 (MPRA) and the Local Government Municipal Finance Management Act 2003.

The proposed average rates increase is 5.5% for all categories of Properties.

Property tax rates are based on values indicated in the General Valuation Roll 2011(GV).

The Roll is updated for properties affected by land sub-divisions, alterations to buildings, demolitions and new buildings (improvements) through Supplemental Valuation Rolls. All values are as at the date of the GV, being 1 July 2011.

Rebates and concessions are granted to certain categories of property usage and/or property owner.

The definitions and listing of categories are reflected in the Rates Policy attached as Annexure 7.

Management

The Solid Waste Tariffs are levied to recover costs of services provided directly to customers. It is proposed that the Tariffs increase (within CPI) by 5.5%.

The New/Changed Tariffs and amendments to the existing Tariff Policy are reflected in Annexure 5.

Tariffs and Charges Book

Council is permitted to levy rates, tariffs, fees and charges in accordance with the Local Government Municipal Property Rates Act, the Local Government: Municipal Systems Act, Act 32 of 2000, Section 75A and the Municipal Finance Management Act, No. 56 of 2003, 17(a)(ii).

The Tariffs and Charges Book is attached as Annexure 4 and contains all levies, rates and service charges determined for all functions or services performed by the municipality for which a charge is made.

An average growth parameter of 5.5% was applied to all the miscellaneous tariffs. All Levies,

Rates and Service Charges are determined in compliance with:

- Local Government Municipal Property Rates Act 2004
- Municipal Finance Management Act 56 of 2003
- Local Government Municipal Systems Act 32 of 2000

4. **Investments**

Monetary investments by maturity date

5. **Long – Term investments and loans**

No new borrowings are proposed for the MTEF budget period

6. **Grant Allocations**

National Allocations

The table below reflects the grant allocations in terms of the 2013 Division of Revenue Bill) that have been included in this medium term budget:

NATIONAL GRANTS	2013/2014 R	2014/2015 R	2015/2016 R
FINANCIAL MANAGEMENT GRANT	1,650,000	1,800,000	1,950,000
NATIONAL ELECTRIFICATION PROGRAMME	10,000,000	15,000,000	10,000,000
EQUITABLE SHARE	63,187,000	67,334,000	76,123,000
MUNICIPAL SYSTEMS IMPROVEMENT	890,000	934,000	967,000
MUNICIPAL INFRASTRUCTURE GRANT(MIG)	26,490,000	26,993,000	28,782,000
MUNICIPAL WATER INFRASTRUCTURE GRANT	1,743,000	2,400,000	6,000,000
EXPANDED PUBLIC WORKS PROGRAM	1,000,000		
TOTAL	**104,960,000**	**114,461,000**	**125,772,000**

Provincial Allocations

The table below reflects the grants allocated in terms of the Provincial Gazette that have been included in this medium term budget:

PROVINCIAL GRANTS	2013/2014 R	2014/2015 R	2015/2016 R
PROVINCIALISATION OF LIBRARIES	514,000	542,000	567,000
COMMUNITY LIBRARY SERVICE GRANT	139,000	146,000	153,000
TOTAL	**653,000**	**688,000**	**720,000**

10. EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

Table SA 19

11. ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Section 67 grants are allocations of funds, from the Municipality's annual operating budget, to organisations or bodies outside any sphere of government. These allocations are gratuitous or unrequited transfers by the Municipality to the grantee organisations and are not payments made in compliance with any commercial or other business transaction.

They provide organisations with funds for carrying out projects, which assist the Municipality in exercising its Constitutional powers and functions which include any additional competencies that may be assigned to the Municipality by National or Provincial Government.

Section 16(2) of the MFMA provides that the mayor must table the annual budget at a Council meeting at least 90 days before the start of a budget year whilst Section 17(3) (j) (iv) provides that when that budget is tabled it must include particulars of any proposed allocations or grants to any organisation or body referred to in Section 67.

12. MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW.

Table SA30

13. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Table SA23

14. ANNUAL BUDGETS AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLANS INTERNAL DEPARTMENTS

In terms of Section 53 (1) (c) (ii) of the MFMA, the Service Delivery and Budget Implementation Plan (SDBIP) is defined as a detailed plan approved by the mayor of a municipality for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate the following –

(a) Projections for each month of

- Revenue to be collected, by source; and
- Operational and capital expenditure, by vote.

(b) Service delivery targets and performance indicators for each quarter, and
(c) Other matters prescribed.

The Mayor, in accordance with Section 53 of the MFMA, is expected to approve the SDBIP within 28 days of the date of approval of the budget. In addition, the Mayor must ensure that the revenue and expenditure projections for each month, and the service delivery targets and performance indicators as set out in the SDBIP, are made public within 14 days of its approval.

The SDBIP gives effect to the Integrated Development Plan and the budget of the municipality. It is an expression of the objectives of the Municipality in quantifiable outcomes, which will be implemented by the administration for the financial period from 1 July 2011 to 30 June 2012 (the Municipal financial year). It includes the service delivery targets and performance indicators for each quarter, which should be linked to the performance agreements of senior management. It therefore facilitates oversight of the financial and non-financial performance of the municipality and allows the Municipal Manager to monitor the performance of the Executive Directors, the Mayor/Council to monitor the performance of the Municipal Manager, and the Community to monitor the performance of the Municipal Government. For the 2012/2013 financial year, the SDBIP will be approved by the Mayor following approval of the Budget.

15. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

Table SA33

16. RECONCILIATION OF IDP STRATEGIC OBJECTIVES AND CAPITAL BUDGET

Table A6

17. LEGISLATION COMPLIANCE STATUS

1 Compliance with the MFMA implementation requirements has been substantially adhered to through the following activities:

- **Budget and Treasury Office -** A budget office and Treasury office has been established in accordance with the MFMA.
- **Budgeting -** The annual budget is prepared in accordance with the requirements prescribed by National Treasury and the MFMA.
- **Financial reporting -** 100% compliance with regards to monthly, quarterly and annual reporting to the Mayor, Executive Committee, Council, Provincial and National Treasury.
- **Annual Report -** The annual report is prepared in accordance with the MFMA and National Treasury requirements.
- **Internship Programme -** The Municipality, in participating in the Municipal Finance Management Internship Programme, has employed a number of interns to undergo training in various finance departments.

18. NATIONAL TREASURY DIRECTIVES

Key issues addressed in National Treasury Circular 58,59,66 & 67: Municipal Budget Circular for the 2013/2014 MTREF

19. CAPITAL EXPENDITURE DETAILS

Table A36

20. OTHER SUPPORTING DOCUMENTS

Table A1 to A10

Municipal manager's quality certificate

I …………………………………, municipal manager of Indaka Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name ____

Municipal manager of Indaka Municipality(KZN 233)

Signature ____

Date ______________________________